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BY THE COMPTROLLER GENERAL

ORIGINAL

Report To The Congress

OF THE UNITED STATES

More Can Be Done To Ensure That Industrial Parks Create New Jobs

SUMMARY

Industrial parks help improve a depressed area's economy by attracting new businesses and industries which create new jobs. Although many parks financed by the Department of Commerce's Economic Development Administration have succeeded in improving the local economy, many others have failed to live up to expectations.

To make sure that industrial parks stand a good chance of attracting businesses and creating jobs, EDA needs to

--improve its use of feasibility studies,

--help park applicants attract businesses, and

--place tighter prohibitions on business relocations which merely shift employment and do not create new jobs.

CED-81-7
DECEMBER 2, 1980

(8)

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

MORE CAN BE DONE TO ENSURE THAT INDUSTRIAL PARKS CREATE NEW JOBS

D I G E S T

Industrial park projects funded by the Economic Development Administration (EDA) have helped distressed areas attract businesses, which in turn have saved or created jobs for area residents. GAO's review of 101 park projects, costing EDA about $41.4 million, showed that 383 businesses were located in these parks, saving or creating 27,072 jobs.

However, a number of park projects have problems: they have not attracted businesses, are not well utilized, and have not created nearly as many jobs as anticipated when the projects were proposed. To correct these problems, GAO is recommending that EDA

--improve assessments of the need for and location of proposed projects,

--establish a management assistance program to help underutilized projects attract businesses, and

--control business relocations.

Improvements are also needed to effectively monitor and assess project accomplishments.

Through fiscal year 1979, EDA obligated about $519 million in grants for about 1,130 park projects. GAO's review was based on visits to 26 projects in Louisiana, Mississippi, and Michigan and on questionnaire results of 75 other projects located throughout the country.

ASSESSING PROPOSED PROJECTS

Do industrial parks stand a good chance of attracting businesses and creating jobs for area residents? This question needs to be answered before park projects are approved. EDA does not require feasibility studies

to assess whether projects are needed or whether they are favorably located to attract businesses. As a result, projects are being approved without adequate justification.

Feasibility studies had not been conducted for any of the 26 projects GAO visited. Had these assessments been made and reviewed by EDA, at least three of these projects, which have cost EDA $712,600 and have had little or no influence in attracting businesses, probably would not have been funded. (See pp. 6 to 8.)

EDA should require applicants 1/ to perform feasibility studies on proposed park projects to assess whether the projects are needed and are favorably located to attract businesses. (See p. 17.)

ESTABLISHING A MANAGEMENT ASSISTANCE PROGRAM

To protect the Federal Government's investment in park projects, EDA should establish a management assistance program to help the park applicants attract businesses to their parks. (See pp. 11 to 16.)

Although EDA relies on the applicants to market and promote their parks, the applicants generally do not have the time, resources, or expertise needed to attract businesses to their parks. Of the 26 park projects GAO visited, only three applicants personally contacted businesses to persuade them to locate in their parks. Because EDA relies heavily on the applicants to market and promote the parks, it should periodically assess the applicants' capabilities and plans for marketing and promoting their parks. (See pp. 11 and 12.)

Specific recommendations for establishing a management assistance program and assessing the marketing and promotion plans are on page 17.

1/Applicants can include any State, political subdivision, Indian tribe, or private or public nonprofit organization representing the area.

CONTROLLING BUSINESS RELOCATIONS

Although a primary purpose of EDA-funded industrial park projects is to attract new businesses or business expansions, 175, or about 46 percent, of the 383 businesses located in the parks reviewed are business relocations. Of these relocations, 33 should have been prohibited under EDA policy, and many of the other 142 relocations, although generally not prohibited, did not provide additional jobs for area residents.

EDA policy is that businesses relocating from one area of the country to another should not be allowed to locate in EDA-funded parks because this practice, in most cases, merely transfers jobs and unemployment problems. Despite this policy, prohibited business relocations occurred because EDA is unclear as to whether the administration of its policy applies to all businesses relocating from outside the area or only to those businesses relocating within a specified time period. Furthermore, park applicants are not, in all cases, adhering to their assurances that business relocations from other areas will not occur. (See pp. 22 to 26.)

Business relocations within the area of the park generally are allowed. However, many of these relocations are unjustified because the businesses merely moved to more attractive sites and did not provide additional jobs. Of the 142 businesses which relocated within the same labor area, 26 had either the same number of or fewer employees at their new locations than at their former sites, 28 increased employment by an average of fewer than three employees, and 9 abolished jobs when they relocated to the parks. In all instances, these businesses did not save any jobs because they probably would have remained at their former sites or found new sites in the areas had the parks not been developed. (See pp. 26 to 28.)

Specific recommendations for controlling business relocations are on page 29.

NEED TO MONITOR AND ASSESS PARK PROJECTS

Although it has been funding industrial park projects since 1966, EDA has not systematically gathered, monitored, or evaluated data on project accomplishments to judge their overall effectiveness.

Recognizing the need for such data, in November 1977 EDA began designing a system to monitor the impact and assess the effectiveness of its programs. The system is expected to be fully operational in late 1980. It includes a cost criterion for saving and creating jobs, time frames for realizing employment projections, and a way to measure actual employment accomplishments. However, because industrial park projects are unique in that they are designed to attract a number of businesses over a period of time, refinements to the system are needed for park projects. (See pp. 33 to 39.)

Another shortcoming in the system is that only projects funded since fiscal year 1979 will be included. As a result, it will be several years until park project accomplishment data will be available. To monitor and evaluate park projects now and to provide management assistance effectively, EDA should gather accomplishment data on park projects funded in the past. (See pp. 39 to 41.)

Specific recommendations on monitoring the impact and assessing the performance of industrial park projects are on page 42.

AGENCY COMMENTS

EDA generally agreed with GAO on the conclusions reached in the report and some of the recommendations. Disagreement stemmed primarily from the agency's philosophy that the Federal Government should not significantly intervene in the local development process and the agency's view that it is faced with administrative and funding restrictions.

Concerning EDA's comment that the Federal Government should not intervene in the local

development process, GAO believes that its recommendation for a management assistance program would not necessitate significant direct Federal intervention in the local development process but, rather, would be welcomed by the applicants who do not have the time, resources, or expertise to attract businesses on their own. Without assistance from EDA, many of the parks will probably continue to be vacant or underutilized.

GAO recognizes that administrative and funding restriction constraints could be impediments to providing the necessary corrective actions to the problems identified. Therefore, the recommendations contained in the report are made with the purpose of minimizing additional costs and preserving limited staff resources, where practical.

The agency's comments are incorporated in pertinent sections of the report and included as appendix III.

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ABBREVIATIONS

CES	Crosscut Evaluation System
EDA	Economic Development Administration
GAO	General Accounting Office
ILS	Industrial Location Service
OPCS	Operational Planning Control System
PWEDA	Public Works and Economic Development Act
SBA	Small Business Administration